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INFO RUEHFR/AMEMBASSY PARIS 0805
RUEHNR/AMEMBASSY NAIROBI 0356
RUEHOR/AMEMBASSY GABORONE 0069
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SUBJECT: AUSTR Encourages Madagascar to Build on AGOA Success

11. SUMMARY: AUSTR Liser engaged public and private AGOA partners during her February 6-8 visit to Madagascar. While the AGOA third-country extension will boost the apparel sector, Madagascar also shows promise in diversifying exports to the United States. High cost and reduced service in shipping was highlighted as an obstacle to Madagascar meeting its trade potential. END SUMMARY.

Policy Discussions with GOM

12. Assistant U.S. Trade Representative for Africa (AUSTR) Florie Liser and USTR Africa Director Coleman engaged public and private trade leaders during a visit to Madagascar February 6-8. The Economic Development Board - Madagascar (EDB-M) hosted a policy discussion led by EDB-M CEO Prega Ramsamy and Advisor John Hargreaves, also including officials from the Ministries of Trade, Industry, and Mines at which the GOM's trade strategy was outlined. CEO Ramsamy said the time to register a company had been cut to three days by consolidating all relevant bureaus at the EDB-M office. He said he has obtained "delegated authority" to vet and approve investment deals in priority sectors like tourism, agro-industry, infrastructure, and light engineering. Mining, represented by Permanent Secretary Rajaonson, will remain separate from the EDB-M due to the technical expertise required in that sector.

13. Hargreaves, a long time apparel factory manager and AGOA advocate, predicted a 20 percent increase in AGOA apparel exports from Madagascar in 2007; creating 15,000 new jobs. He also outlined the EDB-M's plan to host a regional apparel conference and expo November 7-9 to promote AGOA clothing suppliers and attract buyers.

14. In a separate meeting, the President's Chief of Staff, Ivohasina Razafimahefa, took on board AUSTR Liser's recommendation that a new Task Force on the Africa Growth and Opportunity Act (AGOA) be convened to complete a new Action Plan. In this and other meetings, AUSTR Liser educated her counterparts, highlighting opportunities they might be missing in AGOA.

December 12 AGOA Renewal Boon to Apparel Sector

15. In visits to five apparel factories in the Export Processing Zones, AUSTR Liser saw the tangible benefit of AGOA: thousands of jobs. Most operators shared Hargreaves' enthusiasm that Madagascar's apparel sector would rebound sharply in 2007. Having peaked in 2004 at over 110,000 jobs and about USD 400 million in AGOA apparel exports, the sector had declined in 2005 and 2006 (septel). However, spare capacity, expertise, and ample labor

supply will allow factories to scale up quickly in response to buyers' orders.

¶6. The Minister of Trade, the President's Chief of Staff, and every factory manager thanked AUSTR Liser for successfully pushing the AGOA extension through Congress. They appreciate that although AGOA apparel represents just two percent of U.S. clothing imports, the benefits of the trade preference must be thoroughly explained to lawmakers.

Not Just Clothing

¶7. AUSTR Liser also met investors and partners pursuing products to diversify Madagascar's AGOA exports, including: gourmet rice, shrimps, essential oils, and processed agricultural products. A common theme for all sectors was finding niches based on quality.

¶8. The pending gourmet rice deal with U.S. importer Lotus Foods is a powerful demonstration of the continuity and effectiveness of U.S. development strategy in Madagascar. Starting over a decade ago, USAID (via Landscape Development Interventions) created farming cooperatives and established agricultural extension centers to target dual goals of ending slash-and-burn practices and increasing rural incomes. The subsequent USAID Business and Market Expansion project stands on LDI's shoulders, helping cultivators diversify and find financing and markets. Building on this sturdy foundation, the Millennium Challenge Compact is facilitating Lotus Foods' contact with the Kolo Harena farmer's association. The final piece of the puzzle, dependable market access, has been guaranteed by AGOA for the last five years and is now maintained for several growing seasons to come. In this way, conservation, production and trade capacity, finance, and market access combine to reduce poverty.

Key Challenge: Inadequate Shipping Service

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¶9. Andry Ralijaona at the Presidency, a former shipping executive, and every factory manager, identified shipping costs and lead times as a key challenge to Madagascar's competitiveness in delivering apparel to the U.S. market. Major shipping lines like Maersk and P&O Nedlloyd call infrequently at Madagascar's Port of Tamatave. Exported containers must be transshipped at least once, usually in Oman or South Africa, before crossing the Atlantic - taking 30 days to the East coast and 45 days to the West Coast. Nova Knits, maker of fine cashmere sweaters, often fills orders by air freight at great expense to meet deadlines. Importing raw materials like yarn and fabric to the Export Processing Zone also wastes time; a Madagascar-bound container from China arrives in up to 30 days, compared to only 10 days for nearby Mauritius and Sri Lanka.

¶10. Our contacts agreed with AUSTR Liser's point that producers across the region should cooperate to improve their bargaining power with shippers. They welcomed the AUSTR's offer to encourage the shipping majors to expand service to Africa, both to nurture a growing market and support AGOA's objective of poverty reduction. Our contacts in Madagascar, representing suppliers in the number three non-oil AGOA country, understand well that although a tiny proportion of world shipments, AGOA apparel represents over half a million jobs in Africa.

Comment:

¶11. AUSTR Liser's visit offered tremendous encouragement to trade policymakers and operators, reinforcing American commitment to market access for African development. She also educated her interlocutors on the need for diversification, opportunities for capacity-building assistance, and strategies to attract investment. With a half-decade of democratic stability, consistent donor support, and slow economic reforms, Madagascar may be positioned to embark on a period of accelerated growth. President Ravalomanana and his senior team must act quickly to facilitate foreign investments, focus on job creation, and increase exports. AUSTR

Liser suggested several necessary steps; with the continued support of the Competitiveness Hubs, the Mission will work with our Malagasy counterparts to follow through. END COMMENT.

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